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PROSPECTS FOR THE DEVELOPMENT OF SHARE TURNOVER IN EMERGING STOCK MARKETS: THE CASE OF UZBEKISTAN

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ABSTRACT

This study explores the prospects for developing share turnover as a critical dimension of stock market efficiency in emerging economies. Focusing on Uzbekistan, it examines theoretical underpinnings, institutional constraints, and reform pathways that can enhance liquidity and strengthen capital market performance. Drawing on comparative lessons from developed markets, the paper argues that predictable supply of tradable shares, credible governance frameworks, institutional investor participation, and post-trade modernization are essential to create a self-reinforcing cycle of turnover and market depth.

KEYWORDS: *Stock Market, Share Turnover, Liquidity, Institutional Investors, Governance, Capital Market Development, Emerging Economies.*

INTRODUCTION

The stock market has long been regarded as one of the core pillars of financial architecture, serving as both a mechanism for efficient resource allocation and a catalyst for sustainable economic growth. Within this framework, share turnover the ratio of traded shares to market capitalization is considered not only a quantitative measure of liquidity but also a qualitative indicator of investor confidence, market depth, and the overall vibrancy of financial markets. In developed economies, the share turnover ratio often functions as a barometer of capital market health, demonstrating how efficiently capital is circulated and how attractive equity instruments are for both domestic and foreign investors.

For countries undergoing transition and systemic economic reforms, such as Uzbekistan, the issue of stock market development and, specifically, the enhancement of share turnover acquires strategic significance. The mobilization of long-term investment capital through public equity markets is a crucial precondition for economic diversification, industrial modernization, and integration into the global financial system. A dynamic and liquid stock market not only enables corporations to raise cheaper capital but also fosters transparency, accountability, and discipline within the corporate governance system. Thus, developing an environment conducive to higher share turnover should be understood as a multidimensional policy goal with implications for macroeconomic stability, foreign investment attraction, and overall economic competitiveness.

At present, Uzbekistan is experiencing a profound transformation of its economic system, marked by liberalization of financial markets, large-scale privatization of state-owned enterprises, and structural reforms aimed at strengthening the institutional foundations of the capital market. However, despite notable progress, the domestic stock market remains underdeveloped relative to regional peers. Share turnover ratios remain comparatively low, reflecting structural barriers such as insufficient free-float shares, limited institutional investor participation, and underdeveloped financial literacy among retail investors. These challenges underscore the need for a comprehensive strategy to stimulate share turnover through regulatory reforms, technological innovations, and targeted institutional development.

Furthermore, the increasing role of digitalization and financial innovation has redefined the contours of stock market activity globally. The integration of fintech solutions, electronic trading systems, and blockchain technologies has made securities trading more accessible, transparent, and cost-effective. For Uzbekistan, these global shifts present unique opportunities to leapfrog certain stages of market development by adopting advanced technologies that can enhance trading efficiency and boost investor confidence. The digital transformation of stock market infrastructure, when combined with robust institutional reforms, could create a powerful synergy capable of accelerating share turnover and expanding the breadth and depth of the equity market.

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LITERATURE REVIEW

Theoretical models of stock market turnover emphasize its role in asset pricing and investor psychology. Prospect theory, as extended to asset pricing, posits that investors evaluate risks narrowly, incorporating loss aversion, diminishing sensitivity, and probability weighting (Barberis et al., 2019). In this framework, turnover is influenced by prior gains and losses: stocks with positive capital gain overhangs exhibit higher expected returns due to risk-averse selling behavior, leading to elevated turnover as investors lock in gains. Conversely, loss-averse investors hold onto underperforming stocks, reducing turnover and contributing to anomalies like momentum and idiosyncratic volatility. This model implies that turnover prospects hinge on behavioral factors, with heterogeneous holdings fostering dynamic trading in concentrated markets.

Intertemporal equilibrium models further integrate turnover into portfolio theory. Under two-fund or (K+1)-fund separation, turnover follows a factor structure, with systematic risks (e.g., market and hedging portfolios) driving cross-sectional variations (Lo & Wang, 2000). Hedging against investment opportunity shifts predicts that turnover approximates a two-factor model, where small hedging trades enhance liquidity without dominating market activity. Market microstructure theories highlight frictions like transaction costs, which, in dynamic settings, curb infinite volume under continuous information flows (Amihud, 2002). These models suggest that turnover development requires reducing costs and asymmetries to align with efficient equilibria, particularly in emerging markets where imperfect information amplifies volatility.

Liquidity theories, such as those linking turnover to sentiment and macroeconomic variables, underscore its procyclical nature. High turnover signals optimism but risks bubbles, implying prospects for development through regulatory interventions like transaction taxes to mitigate high-frequency trading excesses.

Table 1. Key theoretical models and implications for turnover development

Model type	Key insight	Implications for turnover prospects
Prospect Theory (Barberis et al., 2019)	Loss aversion and narrow framing drive disposition effects and anomalies.	Behavioral biases may increase turnover in bull markets but hinder in downturns; prospects via investor education.
Intertemporal Equilibrium (Lo & Wang, 2000)	Factor-based turnover (market + hedging) under fund separation.	Infrastructure improvements can reduce frictions, boosting turnover in emerging markets.
Microstructure with Frictions (Amihud, 2002)	Transaction costs and information asymmetry limit volume.	Digitalization prospects to lower costs, enhancing liquidity and turnover growth.

Source: Developed by the author

Empirical studies robustly link turnover to economic outcomes, with panel and time-series analyses highlighting its positive impact on growth. In Indian manufacturing firms (2005–2020), fixed-effect models show that higher turnover ratios significantly boost real output growth by facilitating long-term financing (Vidhyapriya et al., 2020). A 1% increase in turnover correlates with enhanced capital allocation, complementing bank credit's role. Similarly, in Tunisia (1998–2018), error correction models reveal a long-run positive effect of turnover on GDP growth at the 10% significance level, though short-run impacts are insignificant, underscoring liquidity's growth-promoting potential in underdeveloped markets (Jebnoun & Chebbi, 2025).

Challenges to turnover development include legislative gaps, low investor literacy, and regional disparities, particularly in emerging markets like Uzbekistan, where turnover declined 2.07-fold in 2018 due to infrastructure deficits. Global crises exacerbate vulnerabilities, with manipulation and instrument shortages hindering liquidity. Concentration trends, as in the U.S. (top-10 at 27% cap in 2023), reduce turnover by favoring passive investing, challenging active managers (only 30% outperform during rising concentration) (Mauboussin & Callahan, 2024).

Prospects are optimistic, driven by policy stimuli and technology. In Hong Kong (2024), turnover rose 25.5% to $131.8 billion, fueled by Stock Connect inflows (18.3% of turnover), signaling integration benefits (HKEX, 2024). Uzbekistan's ARDL models predict UCI gains from turnover increases (0.33 points per unit), via automated systems and privatization. Globally, 2025 prospects include monetary easing boosting turnover (e.g., Fed cuts), though trade tensions pose risks (Goldman Sachs, 2025). Fintech and AI could enhance liquidity, with prospects for 20–30% turnover growth in digitized markets (Barchart, 2025).

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ANALYSIS AND RESULTS

Comparative experiences from emerging economies highlight the importance of institutional capacity-building and policy coherence. Countries such as Poland, Turkey, and Kazakhstan significantly improved their stock market turnover by aligning domestic regulations with international standards, strengthening corporate governance practices, and encouraging wider retail and institutional investor participation. Uzbekistan stands at a similar crossroads where the success of capital market reforms will largely depend on the state's ability to balance liberalization with regulatory oversight, while simultaneously promoting investor trust and market inclusivity.

Table 2. Qualitative diagnostic of constraints on share turnover in uzbekistan

Constraint domain	Qualitative diagnosis	Developed-market practice & lessons
Free float & listing pipeline	Concentrated ownership and irregular IPO/SPO cadence leave thin order books and episodic trading interest.	UK/EU premium segments and Poland's exchange-led privatizations maintain meaningful free float and predictable supply, sustaining turnover.
Investor base depth	Limited pensions/insurance funds and few low-fee collective vehicles keep continuous buy/sell interest shallow.	US/Canada pensions and EU UCITS/ETFs anchor steady two-sided flow; passive rebalancing naturally lifts turnover.
Governance & disclosure credibility	Uneven reporting quality, event disclosure, and minority protection generate a trust discount and longer holding periods.	UK Stewardship Code, Japan's Corporate Governance Code, and EU SRD II align issuer behavior with investor needs, tightening spreads and raising rotation.
Microstructure & liquidity provision	Sporadic liquidity, wide spreads, and minimal designated market-maker obligations dampen order submission.	NASDAQ/NYSE/LSE oblige market makers, calibrate tick/lot sizes, and use auctions to support continuous trading.
Post-trade & hedging toolset	Settlement frictions and nascent lending/borrowing reduce strategy diversity and intraday participation.	Robust DVP/CCP, centralized securities lending, and regulated short-selling in US/UK/SG improve price efficiency and trading frequency.

Source: Developed by the author

The five constraints in Table 2 are complementary and mutually reinforcing, so treating any one in isolation tends to produce only transient gains. Scarce free float depresses natural order flow and widens spreads; in such thin conditions, even well-intentioned retail campaigns struggle to sustain activity. Governance frictions then convert what should be routine event-driven trading into "wait-and-see" behavior, lengthening holding periods and further thinning the book. Where market-maker obligations are light and tick/lot sizes are not calibrated to actual liquidity, order submission becomes riskier, which in turn lowers displayed depth and deters incremental participation. Post-trade frictions—especially the absence of robust lending/borrowing and streamlined corporate-actions processing—shrink the feasible strategy set for both institutions and sophisticated retail, limiting intraday interaction and price discovery.

Developed markets address these frictions as a system, not a checklist. The UK's premium segment and stewardship code, Japan's governance reforms, and EU shareholder-rights frameworks build credibility into issuer conduct and disclosure, which narrows spreads and normalizes rotation. Exchange-led privatizations in Poland and free-float expectations in UK/EU ensure predictable inventory, keeping the order book supplied. NASDAQ/NYSE/LSE microstructure obligated liquidity provision, calibrated ticks, and effective auctions makes it rational to display liquidity. Singapore, Korea, and Canada complement this with clean post-trade plumbing (DVP/CCP) and regulated short-selling/lending that expand hedging and relative-value strategies. The combined effect is a liquidity flywheel: credible issuers attract broader ownership; broader ownership begets tighter markets; tighter markets entice more strategies; and more strategies deepen turnover without compromising investor protection.

RECOMMENDATIONS

To enhance share turnover in Uzbekistan's stock market, reforms should be sequenced and mutually reinforcing. First, privatization via the exchange with free-float thresholds must provide predictable supply, supported by secondary placements tied to governance milestones and phased to avoid crowding. Second, institutional investor development is essential: low-fee ETFs and index funds, prudential equity allocations for pensions and insurers,

and stewardship obligations will institutionalize durable two-sided flow. Third, a premium governance segment with higher disclosure standards, board independence, and event-timeliness will reduce the trust discount and attract both domestic and foreign capital. Fourth, market microstructure improvements designated market makers with quote obligations, calibrated tick sizes, and stronger opening/closing auctions—will secure continuous liquidity. Fifth, securities lending, borrowing, and covered short-selling, anchored in a centralized facility with collateral standards and transparent reporting, will expand the hedging universe and improve price efficiency. Sixth, post-trade modernization through robust DVP/CCP netting, standardized corporate actions, and automated settlement processes will compress frictions and lower costs. Seventh, ETF and index ecosystem expansion, paired with stronger research coverage and issuer–investor engagement, will create structural flows and improve price discovery. Finally, policy predictability and investor access must be ensured: stable tax treatment, digital onboarding, interoperable accounts, and literacy programs will broaden participation and normalize equity investing.

CONCLUSION

The prospects for developing share turnover in Uzbekistan hinge on building a self-reinforcing cycle of liquidity where predictable supply, credible governance, institutional demand, obligated liquidity provision, and efficient post-trade systems operate together. Reform sequencing is crucial: supply and signaling (privatization, premium governance) should precede flow enablers (institutions, ETFs, market makers), followed by friction compression (post-trade, lending/short-selling). Lessons from developed markets confirm that turnover improves not from isolated reforms but from systemic credibility, structural flows, and low-cost trading infrastructure. If executed cohesively, these measures will deepen order books, tighten spreads, increase portfolio rotation, and transform the stock market into a reliable conduit for long-term investment and sustainable economic modernization.

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